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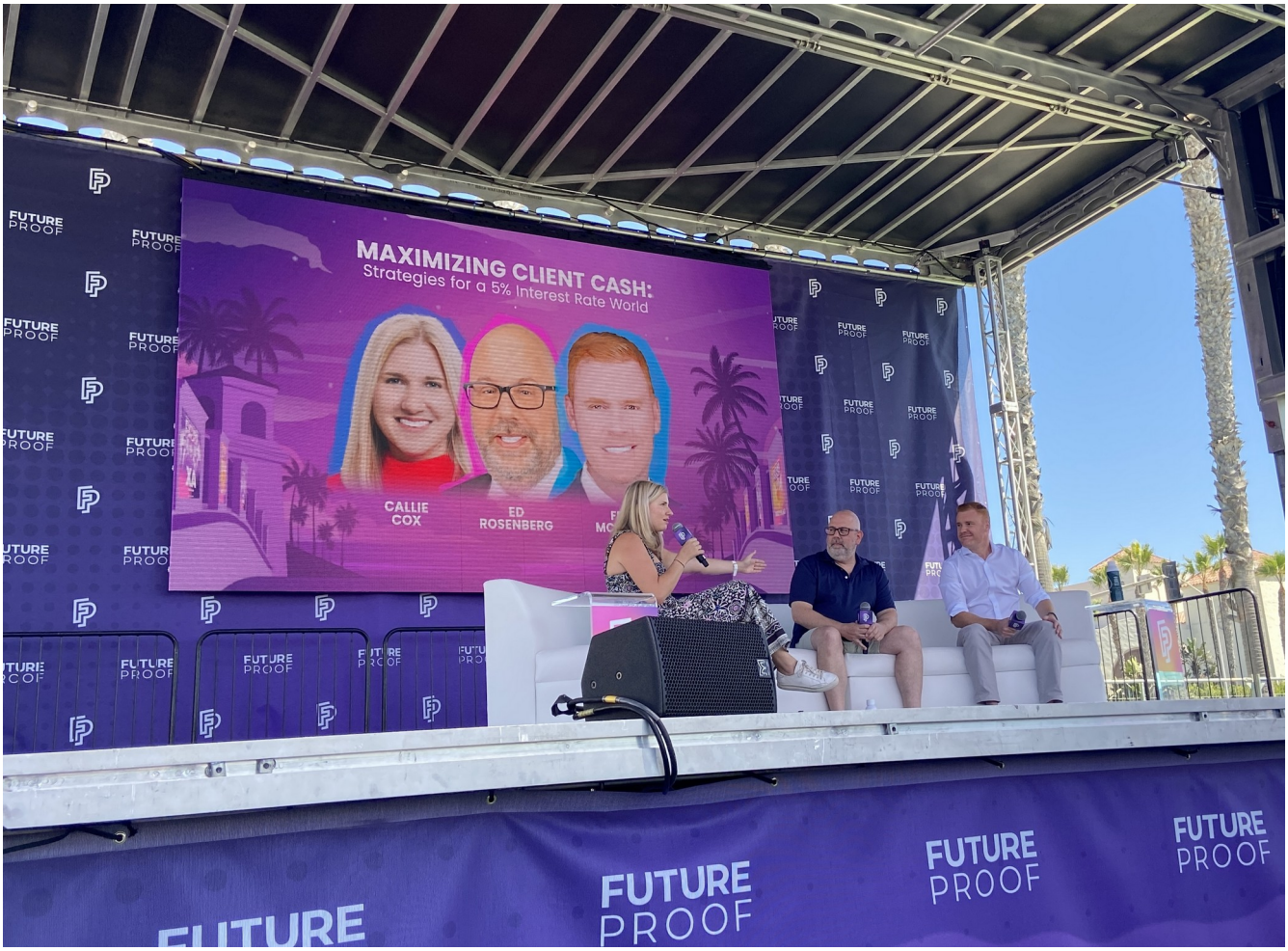

From left: The panel "Maximizing Client Cash: Strategies for a 5% Interest Rate World" was a part of the Future Proof Festival this week in Huntington, Beach California. The session was moderated by Callie Cox, chief market strategist at Ritholtz Wealth Management. It featured Ed Rosenberg, managing director and head of ETF and funds management at Texas Capital, and Frank McKiernan, senior vice president and senior private wealth advisor at Procyon Partners. Cat Auer

Advisor strategies for optimizing cash management
By Rob Burgess
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As the Federal Reserve lowered interest rates for the first time in years this week, financial advisors and their clients are considering the best strategies for cash management moving forward.

The panel "Maximizing Client Cash: Strategies for a 5% Interest Rate World" was a part of the Future Proof Festival this week in Huntington, Beach California.

The session was moderated by Callie Cox, chief market strategist at Ritholtz Wealth Management. It featured Ed Rosenberg, managing director and head of ETF and funds management at Texas Capital, and Frank McKiernan, senior vice president and senior private wealth advisor at Procyon Partners.

"We need to know how to talk about cash, because cash isn't just an asset class," said Cox. "Cash is many people's first experience of money. You get that $5 bill for raking the leaves from your dad, and you hold it in your hand, you say, 'Wow, I have $5 I have cash.' It's a psychological thing. It's not just a spreadsheet. It's not just an interest rate on paper. And you have to walk your clients through that, how to allocate their cash, where to put their cash, how much cash to hold."

While cash seems like a safe bet for portfolios, McKiernan said he often begins cash management conversations with clients with the concept that "risk avoidance equals return avoidance."

"A lot of times, clients will say, 'Well, I want to keep 20% in cash,' and I have to educate them on the upside of the market that you could potentially miss out on by holding that much cash," he said.

McKiernan said high net worth investors who have portfolios with Procyon Partners have around 60% invested in equities, about 15% in alternative investments, about 15% in equities and 10% in cash.

"We always like to keep a little bit on the sidelines," he said.

Before this week, the federal funds rate was at 5.25% to 5.50%, the highest in over two decades. On Wednesday, the Fed voted to lower the federal funds rate to a range of 4.75% to 5%, a half-point drop.

As interest rates begin to fall, McKiernan said he is starting to look at locking rates for longer with bonds.

"So rotating from cash into bonds," he said. "If there is a recession, if there's not, I still think that's going to be the right trade in about a year."

Rosenberg said different crises create different liquidity issues throughout the market. However, McKiernan said people are going to be in cash for longer, "until the winds change."

"We're educating clients on that concept of risk," he said. "It only takes one gap up in the market for clients to say, 'Shoot. I'm holding way too much cash.' ... I just let them see what happens for themselves, and then we make adjustments from there."

Whatever happens next with the wider economy, the lasting effects of having such high interest rates for so long will be felt, even if the Fed continues to drop interest rates in the coming months.

Rosenberg said what the Fed is trying to do is steer advisors and clients away from making cash a main component of portfolios.

"Having a cash component creates stability in a portfolio," he said. "It's not important to have a 10% allocation, but having a 3% allocation that creates stability is meaningful and creates an income stream. And I think that's where we're going to go back to. … There's so much cash in the system that cash levels are going to remain elevated for a long time, no matter what yields are."